

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Wisconsin Energy Corporation, Integrys Energy)
Group, Inc., Peoples Energy, LLC, The Peoples)
Gas Light and Coke Company, North Shore Gas)
Company, ATC Management Inc., and American)
Transmission Company LLC)

Docket No. 14-0496

) Application pursuant to Section 7-204 of the Public)
) Utilities Act for authority to engage in a)
) Reorganization, to enter into agreements with)
) affiliated interests pursuant to Section 7-101, and)
) for such other approvals as may be required under)
) the Public Utilities Act to effectuate the)
) Reorganization.)

TESTIMONY OF WILLIAM CHEAKS JUNIOR

ON BEHALF OF THE CITY OF CHICAGO AND THE CITIZENS UTILITY BOARD

REGARDING THE LIBERTY INTERIM AUDIT REPORT

CITY/CUB EXHIBIT 9.0 - PUBLIC

JANUARY 22, 2015

I. IDENTIFICATION AND SUMMARY OF TESTIMONY

Q. What is your name and title?

A. My name is William Cheaks Junior. I provided pre-field direct and rebuttal testimony in this proceeding in City/CUB Exhibits 3.0 and 7.0, filed with the Illinois Commerce Commission (“ICC” or “Commission”) on November 20, 2014 and January 15, 2015.

Q. What do you recommend in this piece of testimony?

A. I reiterate my recommendation that, if the Commission approves the reorganization proposed by the Joint Applicants (“JA”), it require the conditions I described in my direct testimony at lines 54-75. The Liberty Consulting Group’s (“Liberty”) Interim Audit Report (“Audit Report”)¹ provides validation of my identification of many deficiencies regarding management of the Peoples Gas Light and Coke Company’s (“PGL”) Accelerated Main Replacement Program (“AMRP”), and it details extensive support for the conditions I described my earlier testimony. Moreover, the Audit Report provides specific and compelling reasons why the Commission should require material improvement in PGL’s AMRP as a condition of any approved reorganization. Finally, the Joint Applicants’ testimony and data request responses do not give me confidence that, absent conditions imposed by the ICC, the Joint Applicants will be ready, willing, or

¹ Because the Audit Report is currently designated “Confidential,” portions of this testimony are treated similarly, in accordance with orders governing this proceeding. It is my understanding that the City is seeking to remove that designation so that the results of the audit can be shared with PGL’s Chicago customers. If that “Confidential” designation is removed from the report, the City will ask that this testimony (in its entirety) also be public.

18 able to implement the AMRP consistent with the remedies recommended by the Audit
19 Report.

20 **Q. Does the Audit Report support the Joint Applicants’ “wait and see” approach to**
21 **correcting deficiencies identified regarding AMRP?**

22 A. No. The Audit Report provides strong, unsolicited, and independent support for
23 imposing conditions regarding AMRP performance as a condition of any approved
24 reorganization. If the Commission fails to act on the Audit Report in this proceeding, but
25 waits for a later audit report this spring, the Commission may not have the opportunity to
26 act on that report until it hears the next PGL or NS rate case, which could be until 2020,
27 if the City-CUB recommendation for a five-year rate freeze is adopted. Such a rate
28 freeze would be beneficial for the reasons discussed in Mr. Gorman’s direct and rebuttal
29 testimony (City-CUB Exhibits 4.0 and 8.0), but waiting until 2020 to hold PGL
30 accountable for the recommendations in the Audit Reports is not acceptable. The Audit
31 Report discusses the factors that led Liberty to submit the Audit Report for immediate
32 Commission consideration, despite the fact that Liberty’s scope of work did not include
33 an interim report. ** [REDACTED]

34 [REDACTED]
35 [REDACTED]
36 [REDACTED]
37 [REDACTED]
38 [REDACTED] ** ICC Staff Ex.

39 8.0, Attachment A at S-1. ** [REDACTED]

40 [REDACTED]
41 [REDACTED]** However, these individuals would be replaced
42 as senior management in the proposed reorganization. ** [REDACTED]
43 [REDACTED]
44 [REDACTED]**
45 ICC Staff Ex. 8.0, Attachment A at 3-4, 5, 13.

46 **Q. Does the Audit Report provide any other reasons why the Commission should**
47 **impose conditions on AMRP now?**

48 A. Yes. The Audit Report notes ** [REDACTED]
49 [REDACTED]
50 [REDACTED]
51 [REDACTED]
52 [REDACTED]
53 [REDACTED]** ICC Staff Ex. 8.0,
54 Attachment A at 2. By not acting now, the auditors noted that PGL's ratepayers would
55 ** [REDACTED]
56 [REDACTED]** ICC Staff Ex. 8.0, Attachment A at 2.

57 **Q. Does the Audit Report provide any reasons why the Commission should impose**
58 **conditions on AMRP in light of the proposed acquisition by Wisconsin Energy?**

59 A. Yes. The auditors note that ** [REDACTED]
60 [REDACTED]
61 [REDACTED]

[REDACTED]

[REDACTED]** ICC Staff Ex. 8.0, Attachment A at 2. The acknowledgement of possible effects of a change in parent company leadership and management on PGL's AMRP stands in stark contrast to the Joint Applicants' repeated assertions that the proposed reorganization has no effect on day-to-day AMRP implementation. Moreover, the auditors note that Wisconsin Energy's ** [REDACTED]

[REDACTED]

[REDACTED]** will be material to the performance of AMRP. ICC Staff Ex. 8.0, Attachment A at 5. This concern is also echoed in observations by the auditors that their discussions about AMRP were affected by ** [REDACTED]

[REDACTED]

[REDACTED]**

ICC Staff Ex. 8.0, Attachment A at 10. ** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]** ICC

Staff Ex. 8.0, Attachment A at 3-4.

Q. Does the Audit Report provide any specific conditions the Commission could impose to improve the performance of AMRP?

A. Yes, the Audit Report echoes my call for specific remedial actions in critical areas like:

** [REDACTED]

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[REDACTED]

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Among the many recommended improvements, of particular importance to my concerns is the specific recommendation that PGL ** [REDACTED]

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[REDACTED] ** ICC Staff Ex.

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8.0, Attachment A at 16. Despite the Joint Applicants’ vehement claims that the location and “on-the-ground” availability of AMRP management personnel is not relevant to AMRP performance under the proposed reorganization, this recommendation by Liberty supports my conclusion that having Chicago-based management personnel “on-site” would improve performance. An enforceable commitment from the Joint Applicants or a condition of any Commission approval is necessary to assure that the recommended AMRP changes are made under any post-reorganization structure. Although I agree with many other detailed recommendations by Liberty (including those made with respect to cost controls, scheduling, and coordination), I will not recount them in full here.

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Q. Does the content of the Audit Report cause you to change your conclusion that Wisconsin Energy has not shown the Commission that it has the “ability to provide the managerial support necessary to make AMRP successful”?

113 A. No, it does not. If anything, the content of the Audit Report only strengthens my
114 conclusion. As I explained in my direct testimony, Wisconsin Energy admitted to having
115 not requested a detailed work plan of AMRP, and the Agreement and Plan of Merger in
116 place between the parties fails to address AMRP. City/CUB Ex. 3.0 at 891-901. The
117 contents of the Audit Report do not change the fact that WEC has “no specific plans at
118 the present time with respect to the use of WEC Energy Group’s cash flows for the
119 funding of Peoples Gas’ AMRP.” City/CUB Ex. 3.1 (JA DRR to City 2.22). Even if
120 WEC had specific plans to deploy its funding and/or claimed expertise to improve PGL’s
121 AMRP, WEC has not provided information regarding its costs to comply with
122 Milwaukee’s Public Way repair regulations; WEC has not tracked costs for fees, fines,
123 and penalties for noncompliance with those regulations; and WEC is not aware of any
124 fees, fines, or penalties paid for non-compliance with Milwaukee’s regulations.
125 City/CUB Ex. 3.1 (JA DRR to City 4.04). Given this lack of documentation and history,
126 the auditors’ conclusion that ** [REDACTED]
127 [REDACTED]
128 [REDACTED] ** makes it even more apparent that the
129 Commission must condition any approval of the proposed reorganization on material
130 improvement in AMRP performance in order to protect the interests of PGL’s ratepayers.
131 ICC Staff Ex. 8.0, Attachment A at 5. Those past failures are even more concerning
132 when one considers the Joint Applicants’ position regarding clearly needed AMRP
133 management changes in connection with their proposed reorganization. According to the
134 Joint Applicants, they are not required to make AMRP better to gain unconditional

reorganization approval. “In this context, therefore, ‘improvement of deficiencies’ would be above and beyond what is required for the protection of interests” of the utility and its customers. City/CUB Ex. 9.1 (JA DRR City 10.17). To ensure that these past failures are not repeated or worsened once reorganized, the Joint Applicants must provide a project work plan and report to the City that specifically addresses the recommendations of Liberty with timelines of when each recommendation would be addressed. At a minimum, this work plan should address the concerns I have raised in my testimony that are echoed by Liberty which include, but are not limited to, construction design, planning, scheduling, coordination, compliance and change management. While future submission of this plan should be required as a condition of any approved reorganization in this proceeding, I recognize it may take time to properly construct such a plan and thus ask that it be provided to the City no later than December 1, 2015.

Q. Does this conclude this piece of your testimony?

A. Yes.